

# FDIC State Profile

Spring 2006

## Maine

Maine's employment was little changed in 2005 but construction employment rose.

- The Maine economy lost 600 jobs from fourth quarter 2004 through fourth quarter 2005, a decline of 0.1 percent. The construction and business and professional services sectors, however, added new jobs during the year, each increasing by 1.7 percent.
- Construction employment is highly variable over time and is significantly influenced by the behavior of housing prices (see Chart 1). This was especially the case in the 1980s and early 1990s, but somewhat less so now. Given this relationship, the recent slowing in the rate of home price appreciation may portend some decrease in the rapid growth of construction employment.
- Of the construction subsectors, the largest employment growth was in specialty trade contracting (plumbing, painting, and electrical work). This subsector accounted for about three-fifths of all construction employment in Maine and gained 4.0 percent in new jobs.
- Manufacturing, a sector that has struggled to add jobs since the recession, continued to lose jobs during 2005, decreasing by 4.8 percent.

**Unemployment insurance claims show slow improvement in Maine.**

- Since reaching a peak monthly average over 7,000 late in 2001, initial unemployment insurance claims have declined to very moderate levels. As of January 2006, the six-month seasonally adjusted monthly average stood at just 5,500 (see Chart 2).
- This level of new claim activity remains well below Maine's historical average, suggesting moderate gains in employment over the near term.

**The departure of young adults has raised Maine's median age.**

- Maine posted a 6.9 percent decline in its population of 25 to 34 year-olds from 2000 to 2004. Maine is the oldest state in the nation as measured by median age and the sharp decline in the young adult population will add to

Chart 1: Construction Employment in Maine Often Varies with Home Prices

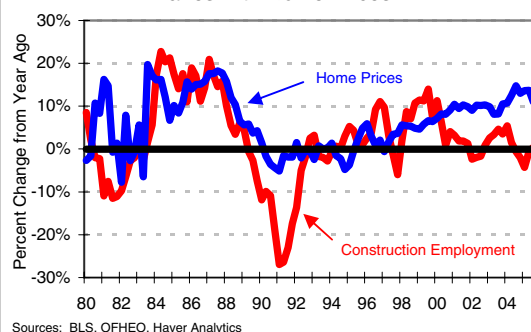
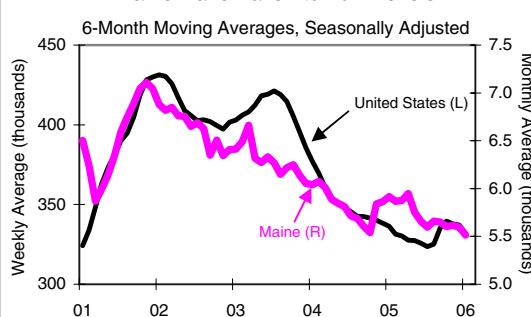
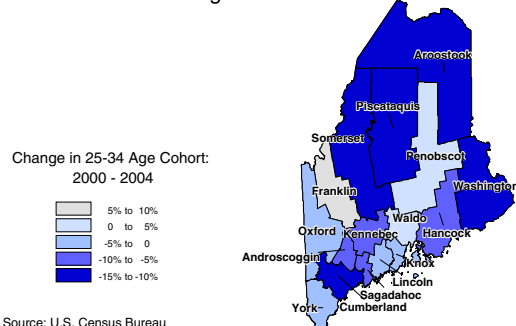


Chart 2: New Unemployment Insurance Claims in Maine Have Fallen to Low Levels



Map 1: Younger Workers in Northern Maine Are Relocating in Search of Jobs



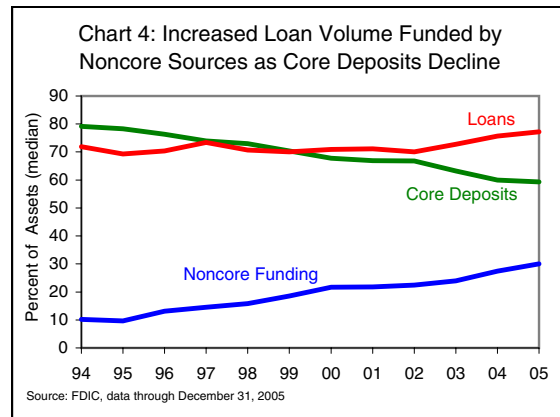
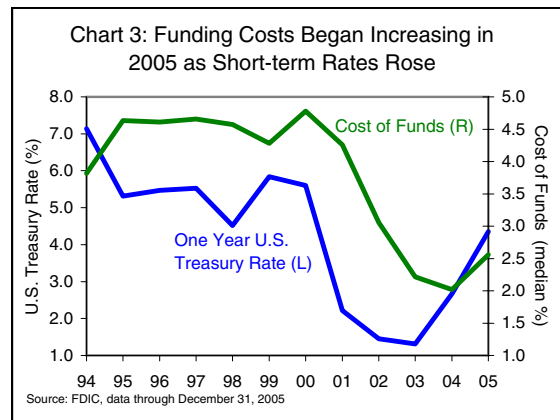
the challenge posed by an aging population.<sup>1</sup> Further, the 25 to 34 age cohort can set the pace for economic development of the area as they join the workforce and form households.

- The northern half of the state, with the exception of **Penobscot County**, suffered the largest decline in this important demographic group (see Map 1). These mostly rural counties have the smallest populations of Maine's counties, the lowest population densities, and the lowest per capita and median household incomes. With many of the traditional manufacturing and resource-based industries shrinking, and little new industry taking their place, it is not surprising that many young people are leaving the area to seek other employment opportunities.

**Rising short-term interest rates, a flatter yield curve, and a decline in core deposits are pressuring net interest margins (NIMs).**

- NIMs have been on a general decline and have experienced pressure since the mid 1990s. NIMs showed signs of improvements in 2002 but dropped sharply in 2003 and have exhibited pressure since. During 2005 the NIM declined another nine basis points to 3.72 percent.
- In 2004, the Federal Reserve began a series of increases in short-term interest rates that have continued into the early part of 2006. These increases led to a flattening yield curve as the difference in short-term rates and long-term rates narrowed.<sup>2</sup>
- A flattening yield curve often causes NIM compression as banks tend to borrow short-term and lend longer-term. Maine's insured institutions saw NIMs decline slightly as funding costs began to increase late in 2005 in response to higher short-term interest rates (see Chart 3).
- With fewer low cost core deposits to fund loan growth, banks are increasingly turning to more expensive noncore funding sources such as borrowings. As of December 31, 2005, Maine's insured institutions posted a noncore funding to asset ratio of 29.99 percent, which is the second highest in the nation (see Chart 4). Noncore funding typically is more sensitive to changes in market interest rates than core funding, and as a result, could further pressure NIMs should rates continue to rise.
- Going forward, the impact on NIMs from increased funding costs in Maine's insured institutions may be more pronounced due to the large concentration of long term mortgage related assets because deposits usually reprice

more frequently than long-term assets. Maine's insured institutions hold almost 28 percent of total assets in long-term assets.



<sup>1</sup>U.S. Census Bureau, 2004 American Community Survey

<sup>2</sup>FYI: An Update on Emerging Issues in Banking. What the Yield Curve Does (and Doesn't) Tell Us. February 22, 2006. <http://www.fdic.gov/bank/analytical/fyi/2006/022206fyi.html>

## Maine at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.0%	-0.1%	0.5%	0.8%	0.1%
Manufacturing (10%)	-4.4%	-3.7%	-1.3%	-1.7%	-5.8%
Other (non-manufacturing) Goods-Producing (5%)	1.3%	0.8%	-1.4%	1.0%	3.1%
Private Service-Producing (67%)	0.3%	0.3%	0.9%	1.2%	0.6%
Government (17%)	0.8%	0.4%	0.7%	1.0%	0.7%
Unemployment Rate (% of labor force)	4.8	5.0	4.7	4.6	5.0

<b>Other Indicators</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	4.8%	6.7%	6.0%	3.6%
Single-Family Home Permits	-10.1%	19.3%	27.1%	22.0%	6.5%
Multifamily Building Permits	4.2%	36.4%	4.3%	33.1%	-34.5%
Existing Home Sales	-6.6%	5.1%	-1.5%	9.4%	6.6%
Home Price Index	10.6%	11.0%	13.0%	12.8%	9.2%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	6.39	5.58	3.00	3.32	3.49

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	37	37	39	39	40
Total Assets (in millions)	47,696	47,104	43,005	43,005	40,266
New Institutions (# < 3 years)	1	1	1	1	1
Subchapter S Institutions	0	0	0	0	0

<b>Asset Quality</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.94	0.89	0.88	0.88	1.06
ALLL/Total Loans (median %)	1.10	1.08	1.11	1.11	1.18
ALLL/Noncurrent Loans (median multiple)	2.64	2.72	2.74	2.74	2.51
Net Loan Losses / Total Loans (median %)	0.03	0.05	0.03	0.05	0.05

<b>Capital / Earnings</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.32	9.36	9.19	9.19	9.27
Return on Assets (median %)	0.87	0.86	0.89	0.94	0.98
Pretax Return on Assets (median %)	1.08	1.28	1.23	1.36	1.41
Net Interest Margin (median %)	3.73	3.71	3.79	3.81	3.92
Yield on Earning Assets (median %)	6.25	6.12	5.63	5.53	5.81
Cost of Funding Earning Assets (median %)	2.58	2.33	1.83	1.78	1.99
Provisions to Avg. Assets (median %)	0.08	0.09	0.09	0.08	0.14
Noninterest Income to Avg. Assets (median %)	0.57	0.67	0.58	0.66	0.69
Overhead to Avg. Assets (median %)	2.94	2.83	3.15	2.96	3.01

<b>Liquidity / Sensitivity</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	77.2	76.8	75.7	75.7	72.8
Noncore Funding to Assets (median %)	30.0	27.6	27.4	27.4	23.9
Long-term Assets to Assets (median %, call filers)	36.1	32.4	31.8	31.8	34.5
Brokered Deposits (number of institutions)	17	16	16	16	17
Brokered Deposits to Assets (median % for those above)	8.1	7.0	3.3	3.3	2.3

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	59.6	69.5	48.5	48.5	61.1
Commercial Real Estate	236.6	225.6	212.6	212.6	194.3
<i>Construction &amp; Development</i>	33.2	31.5	27.5	27.5	18.8
<i>Multifamily Residential Real Estate</i>	8.6	9.0	7.9	7.9	8.6
<i>Nonresidential Real Estate</i>	178.9	180.4	155.5	155.5	154.4
Residential Real Estate	451.8	454.1	437.9	437.9	418.5
Consumer	27.7	31.3	28.0	28.0	30.3
Agriculture	0.1	0.2	0.4	0.4	0.6

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Portland-South Portland-Biddeford, ME	22	8,021	< \$250 million	14 (37.8%)
Bangor, ME	10	1,681	\$250 million to \$1 billion	19 (51.4%)
Lewiston-Auburn, ME	10	1,126	\$1 billion to \$10 billion	3 (8.1%)
			> \$10 billion	1 (2.7%)